

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2021-324-WS

IN RE: Application of Kiawah Island Utility,)	DIRECT TESTIMONY
Incorporated to File Proposed Changes)	
in Rates, Charges, Classifications)	OF
and/or Regulations for Water and)	
Sewer Service.)	DONALD H. BURKETT

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Donald H. Burkett, CPA. My principal place of business is 3101 Sunset
3 Boulevard, West Columbia, South Carolina 29171.

4 **Q. WHAT IS YOUR CURRENT POSITION?**

5 A. I am employed as the Executive Vice President of Burkett Burkett & Burkett Certified
6 Public Accountants, P.A. where I have worked since 1976.

7 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND.**

9 A. I graduated in 1974 from the University of South Carolina with a Bachelor of Science
10 Degree in Accounting. I am a CPA licensed to practice accounting in South Carolina
11 and a member of the American Institute of Certified Public Accountants. From 1974
12 until 1976, I worked for a regional CPA firm before founding Burkett Burkett &
13 Burkett Certified Public Accountants, P.A. in 1976. I am a past President of the South
14 Carolina Association of Certified Public Accountants. I am a past Chairman of the
15 South Carolina Board of Accountancy, which regulates the licensure and practice of
16 accounting in the State of South Carolina. Most recently, I served as the Chair of the

1 National Association of State Boards of Accountancy. I have been involved with
2 auditing, tax return preparation, financial services, and advisory services for my entire
3 career for a variety of clients, including regulated utilities.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. I have been retained by Kiawah Island Utility, Inc. ("KIU" or "Company") to prepare
6 the financial schedules submitted in connection with its application. The purpose of my
7 testimony is to support the application for an adjustment of certain rates and charges
8 for the provision of water and wastewater services.

9 **Q. WHY IS KIU REQUESTING RATE RELIEF AT THIS TIME?**

10 A. With increased operating expenses and the additional plant investments KIU has made
11 since its last rate case, KIU needs rate relief to continue providing safe, reliable, and
12 high-quality service to customers.

13 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

14 A. The Rate Case Application includes the financial statements for KIU. The subsections
15 are as follows:

- 16 • Schedule A - Balance sheet
- 17 • Schedule B - Current and pro forma income and expense statements
- 18 • Schedule C - Schedule of billed revenue at current and proposed rates
- 19 • Schedule D - Schedule of fixed assets and depreciation
- 20 • Schedule E - Schedule of present and projected customers
- 21 • Schedule F - Schedule of proposed revenues
- 22 • Schedule G – Schedule of proposed rates

Also included in the Application are the most recent approval letters from the South Carolina Department of Health and Environmental Control, a sample customer bill form, and the Company's most recent Gross Receipts Tax Filing at the time the application was filed. The test year chosen is the year ended December 31, 2020, which was the twelve-month period of the Company's most recent fiscal year available at the time of the Company's filing.

Q. PLEASE SUMMARIZE THE PROPOSED CHANGES IN THE COMPANY'S RATE SCHEDULES.

A. Exhibit "A" to the Application contains the Company's Schedule of Proposed Water and Sewer Charges. A summary of the requested increase in base rates for the average residential and commercial customer with a 5/8" meter is shown below.

Residential Base Rates			
<u>Class</u>	<u>Meter Size</u>	<u>Current</u>	<u>Requested</u>
Water	5/8"	\$36.65	\$42.21
Sewer	5/8"	\$28.00	\$30.72
Total		\$64.65	\$72.93

Commercial Base Rates			
<u>Class</u>	<u>Meter Size</u>	<u>Current</u>	<u>Requested</u>
Water	5/8"	\$36.65	\$42.21
Sewer	5/8"	\$28.00	\$30.41
Total		\$64.65	\$72.62

A summary of the requested increase in consumption rates for residential customers is shown below.

Residential Consumption Rates			
<u>Class</u>	<u>Up to</u>	<u>Current</u>	<u>Requested</u>
Water	11,000 gal	\$4.83	\$5.08
Sewer	11,000 gal	\$0.74	\$0.81
Total		\$5.57	\$5.89

A summary of the requested increase in consumption rates for commercial customers is shown below.

Commercial Consumption Rates			
<u>Class</u>	<u>Up to</u>	<u>Current</u>	<u>Requested</u>
Water	11,000 gal	\$5.71	\$5.94
Sewer	11,000 gal	\$2.86	\$3.11
Total		\$8.57	\$9.05

Q. PLEASE EXPLAIN THE COMPONENTS OF THE COMPANY'S TEST YEAR COSTS.

A. The Company's test year costs include operating expenses, depreciation on plant placed in service through December 31, 2021 (including depreciation on shared assets), allocated corporate overhead, interest expense, income taxes, other miscellaneous costs, and a reasonable operating margin.

Q. PLEASE EXPLAIN HOW THE TEST YEAR COSTS WERE ADJUSTED.

A. Pro forma adjustments were made to the test year actual costs based on known and measurable changes to recorded costs.

1 **Q. PLEASE DESCRIBE THE KNOWN AND MEASURABLE PRO FORMA**
2 **ADJUSTMENTS MADE TO THE INCOME STATEMENT IN SCHEDULE B.**

3 A. The major known and measurable pro forma adjustments made to the income statement
4 in Schedule B are:

- 5 • Operating Revenue was adjusted to reflect the number of customers at year end
6 using the rates that were effective as of September 2021. This increased pro
7 forma revenue by \$259,647.
- 8 • Payroll expenses were increased to reflect known and measurable increases in
9 effect for 2021 to both wages and benefits. This adjustment increased operation
10 and maintenance expenses by \$94,492.
- 11 • The purchased water expense was increased to reflect increased costs passed on
12 by KIU's supplier, St. John's Water Company. This adjustment increased
13 operation and maintenance expenses by \$238,229.
- 14 • Purchased power expense was increased to reflect the one-time credit received
15 for the Santee Cooper settlement. This adjustment increased operation and
16 maintenance expenses by \$27,682.
- 17 • Contractual Services – Legal was reduced by removing non-recurring legal
18 fees. This adjustment decreased operation and maintenance expenses by
19 \$313,423.
- 20 • Contractual Services – Management Fees was reduced to reflect a three-factor
21 overhead allocation used in previous rate cases and to reflect a discretionary
22 adjustment by management. This adjustment decreased operation and
23 maintenance expenses by \$436,606.

- 1 • Rate case expenses are estimated at \$200,000 and amortized over two years.
2 Combined with previous rate case expenses allowed, the net adjustment is a
3 decrease to operation and maintenance expenses of \$47,517.
- 4 • Removal of non-allowable expenses reduces operation and maintenance
5 expenses by \$3,006.
- 6 • Depreciation of fixed assets has been increased to reflect investments by KIU
7 up through December 31, 2021. This adjustment increases depreciation expense
8 by \$236,788.
- 9 • Property taxes were adjusted to reflect additional plant investments by KIU.
10 The amount of the property tax adjustment is \$146,926.
- 11 • Interest expense was initially reduced by \$325,084 to reflect the interest
12 synchronization calculation. After further analysis, the interest expense needs
13 to be reduced by \$335,793. This is a change of \$10,709 from the adjustment in
14 the application.

15 **Q. WHAT COSTS ARE INCLUDED IN RATE CASE EXPENSES?**

16 A. Prudent rate case costs include attorney's fees, expert witness fees, and out-of-pocket
17 expenses incurred in a rate case.

18 **Q. HOW DOES THE COMPANY PROPOSE TO SEEK RECOVERY OF**
19 **PRUDENT RATE CASE COSTS INCURRED SUBSEQUENT TO THE ORS'S**
20 **AUDIT CUT-OFF DATE?**

21 A. KIU will continue to update its rate case expenses after the ORS's audit cut-off deadline
22 and will provide the ORS with periodic updates. KIU will also file supplemental rate
23 case expenses with the Commission prior to the final hearing in this matter and will

1 seek to further update its expenses after its conclusion. KIU will ask the Commission
2 to allow recovery of the supplemented expenses.

3 **Q. HAS THE COMPANY COMPLIED WITH ALL DISCOVERY REQUESTS**
4 **FROM ORS AND DCA?**

5 A. The company has received 387 discovery requests, including subparts, and has
6 completed responses to 357 of them, the remainder of which are due January 28, 2022.

7 **Q. WHAT RATEMAKING METHODOLOGY SHOULD THE COMMISSION**
8 **USE TO SET RATES IN THIS APPLICATION?**

9 A. The Company understands that the Commission has broad flexibility to determine an
10 appropriate rate-setting methodology. Further, established law directs the Commission
11 identify an allowable operating margin in all water and wastewater orders. The
12 Company proposed that its rates continue to be determined using an operating margin
13 methodology, consistent with historical precedent. The Commission found operating
14 margin to be appropriate for determining the lawfulness of the Company's rates and in
15 fixing just and reasonable rates in the Company's last rate filing, while allowing KIU
16 to continue to provide adequate water and wastewater services to its customers. The
17 application proposes an operating margin of 14.25%, the same operating margin that
18 was approved by this Commission for KIU in 2019.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.